

IDAHO FORECAST DESCRIPTION

The Forecast Period is the First Quarter of 2002 through the Fourth Quarter of 2005

This year should be one of transition for the Idaho economy. After a disappointing start, Idaho nonfarm employment is projected to begin expanding in the second half of this year. On an annual basis, Idaho nonfarm employment is expected to be flat this year, but closer examination suggests things may be better than they appear. First, much of the softness in this year is a carryover from the severe employment slide in 2001. In that year, employment dropped from 568,155 at the beginning of the year to 566,171 at the end of the year. The biggest drop came in the last quarter of 2001, which lowered the starting point for employment in 2002. In the first quarter of this year employment dropped at a mild 0.4% annual rate, but the cumulative effect of the previous quarter makes it seem worse. It should also be pointed out that Idaho nonfarm employment is anticipated to grow in the remaining three quarters of 2002. This growth will offset the negative impacts of the previous year. Thus, although Idaho nonfarm employment for 2002 shows no growth on an annual basis, there should be growth in most quarters of that year.

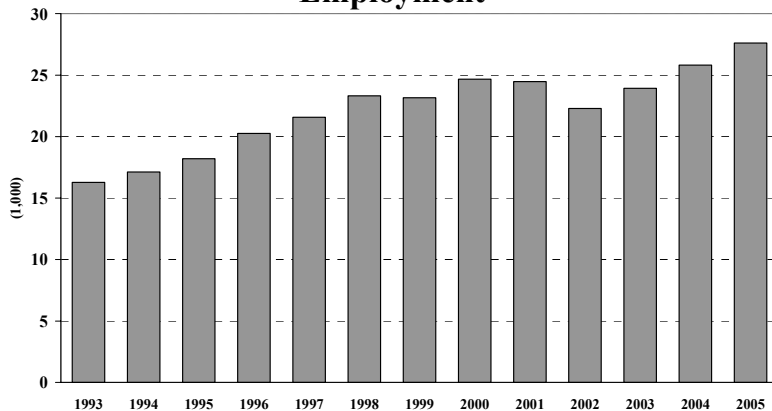
Idaho personal income is forecast to grow faster this year than last year. The U.S. Department of Commerce estimates that Idaho nominal personal income grew by 3.9% last year. The deceleration in wage and salary payments was a major factor in 2001's performance. Idaho wage and salary payments surged 10.2% in 2000, but increased just 2.7% in 2001. A portion of this slow down can be traced to the slow job growth in 2001 and another portion is attributable to slow wage growth. Idaho nonfarm employment increased 1.5% in 2001—its weakest showing since 1986. In addition, Idaho's average annual wage grew just 1.0%. Idaho wages and salary payments are expected to grow by 2.7% again this year due to faster average wage growth. In addition, other components of Idaho personal income are also projected to accelerate this year, so Idaho nominal personal income growth should improve to 4.2% this year. Idaho real personal income is forecast to increase 2.7% in 2002, which is a notable improvement over last year's 2.0% real growth.

Idaho's economy is expected to accelerate annually after this year, but a return to growth rates experienced in the late 1990s is not anticipated. Idaho nonfarm employment is projected to increase 1.5% in 2003, 1.9% in 2004, and 2.2% in 2005. Initial strength should come from the state's gigantic services-producing sector. It is forecast to expand 1.5% this year, 1.8% next year, 1.9% in 2004, and 2.2% in 2005. The goods-producing sector should take a little longer to recover. It is forecast to shrink 5.6% in 2002, experience no growth in 2003, advance 1.8% in 2004, and expand 2.2% in 2005. This sector's outlook reflects hard hits to a couple of its traditional growth engines. The state's electrical and nonelectrical industry has been a steady source of jobs for well over a decade. In 2002, its employment is expected to retreat 8.9%—its first annual decline since 1986. Construction employment, which rode the crest of the state's building tidal wave, is forecast to decline 5.1% this year, 3.9% next year, 2.1% in 2004, and rise 1.3% in 2005.

Idaho personal income growth should also improve over the next years. Specifically, Idaho nominal income is projected to rise 4.2% in 2002, 5.4% in 2003, and 5.9% in both 2004 and 2005. Part of this improvement reflects the anticipated stronger growth for Idaho's average annual wage. Idaho real personal income should grow 2.7% in both 2002 and 2003, 3.2% in 2004, and 3.1% in 2005.

SELECTED IDAHO ECONOMIC INDICATORS

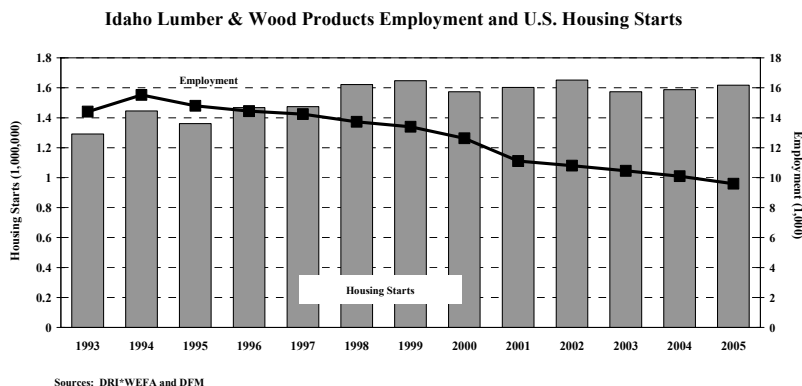
**Idaho Electrical & Nonelectrical
Employment**



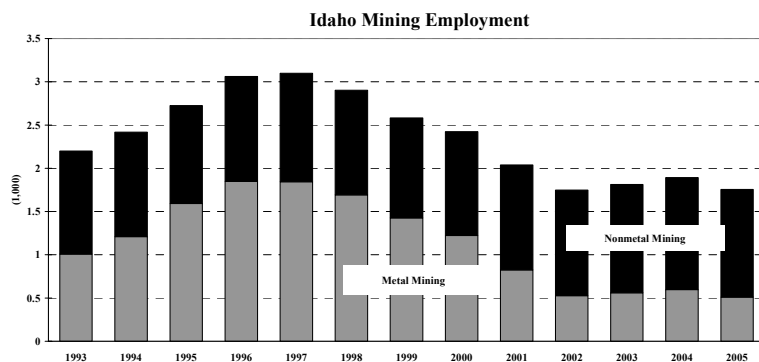
Electrical and Nonelectrical Machinery: Recent data from the Idaho Department of Labor show the previous estimates for Idaho electrical and nonelectrical machinery employment reported in the April 2002 *Idaho Economic Forecast* were too high. Specifically, that publication showed this sector's employment was 23,145 in the last quarter of 2001 and DFM predicted 23,313 jobs in the first quarter of 2002. This suggests employment bottomed out at the end of last year and began recovering in this year's first quarter. The actual data show electrical and nonelectrical

machinery fell to 22,798 in the fourth quarter of 2001 and declined further to 22,039 in the first quarter of 2002. By the second half of this year, this sector should be posting employment gains. After the first quarter of this year, this sector's employment should gradually expand. However, a return to the extraordinary growth rates enjoyed during the state's economic expansion is not anticipated. This is because this sector's employment is driven by real business investment. During the second half of the 1990s, U.S. real business investment was an engine of economic growth that grew over 10% annually. High-tech investment did particularly well during this period. Fueled by the widespread use of the World Wide Web, the Telecommunications Act of 1996, and Y2K, combined real spending on software, computers, and communications equipment advanced over 25% per year. In response to this strong demand, the output of office and computer equipment rose nearly 40% per year from 1995 to 2000 and the output of electronic components grew about 50% per year. This reversed dramatically last year. In 2001, real spending on equipment and software declined 4.4%. This put the brakes on office and computer equipment output growth, causing it to slow to just 2.3% in 2001. Electronic component production actually contracted 4.4% last year. Idaho was not immune from these setbacks; local companies laid off approximately 4,000 persons. A notable exception to the list of high-tech companies announcing layoffs was Micron Technology. Instead, it took other measures to combat low prices for its products. One measure, a hiring freeze, has had an impact because the company traditionally produced 100 to 200 new jobs per month. In 2001, Idaho machinery employment shrank 0.8%. It is expected to decline almost 9.0% this year, then grow 7.3% in 2003, 7.9% in 2004, and 7.0% in 2005. This is slightly less optimistic than the April 2002 forecast. There are several reasons for dampening the forecast. First, the weak employment showing in the first quarter of 2002 may indicate the current investment situation has a more negative impact on local employment than in the past. Second, business investment is a wild card. After years of strong growth, investment collapsed in 2001, leaving us in uncharted territory. Replacement demand will boost investment, but opportunities for increased spending on capacity additions seem limited. Currently, about a quarter of the nation's manufacturing capacity is sitting idle, which is well below full capacity. Third, Micron Technology has been acquiring manufacturing capacity outside of Idaho by purchasing assets from other companies. This puts the company in an excellent position to take advantage of stronger markets. Of course, since most of these plants are out-of-state, any hiring for them will not be counted in Idaho employment.

Lumber and Wood Products: The state's lumber and wood sector suffered another setback when the owner of the mill in Cascade, Idaho announced this spring they would be dismantling the mill in June 2002. Approximately 125 jobs were lost when the former Boise Cascade mill ceased operations in 2001. At that time it was hoped the company would find a buyer for the mill and it could possibly resume operations.



Unfortunately, no buyer was found and the mill will become another of a long list of mills that have closed permanently. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 high-paying jobs. Unfortunately, mill closing have become an all-too-frequent occurrence in the West. *Random Lengths* recently reported that there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington, California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. The closures have had a significant impact in Idaho. The lumber and wood products sector was once the state's largest manufacturing employer. However, between 1990 and 2000 it had shed over 15% of its employment base. It shrank an additional 12.1% in 2001 alone. The impacts of these job losses are amplified in rural communities where the mill is often the largest employer and there are limited opportunities to find similar work. Most of this sector's woes can be traced to the dwindling supply of timber from public lands. Like most of the region, the health of the Gem State's industry depends on an adequate supply of public timber. Federal records show the amount of timber harvested from federal lands has indeed declined. According to U.S. Department Agriculture, the total amount of timber harvested in Idaho fell from 1.8 million board feet in 1990 to 1.2 billion board feet in 2000, a 31% drop. These data also show that harvests from Idaho national forests fell an astounding 78% over this decade. The industry has also suffered the near disappearance of the export market. The strong dollar, Canadian competition, and shrinking foreign demand for lumber have all had negative impacts on this sector. The soft export market has flooded the domestic market with lumber and wood products, which helps to explain why this sector continues to lose jobs at a time when the domestic demand for its products is relatively strong. Idaho lumber and wood products employment is forecast to drop 2.7% in 2002, 3.2% in 2003, 3.4% in 2004, and 5.0% in 2005.



Mining and Chemicals: Like other resource-based sectors, Idaho's mining and chemical industries have struggled recently. Unfortunately, they are not expected to turn around in the near future. The state's mining sector suffered its fourth straight year of employment declines in 2001. After peaking at about 3,100 jobs in 1997 it had just over 2,000 jobs in 2001. Most of the job losses were in the metal mining

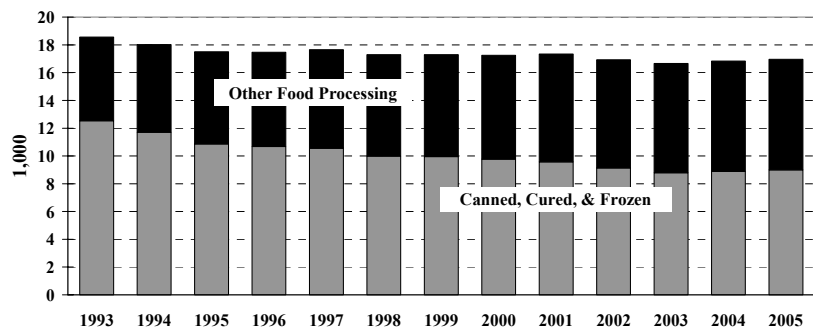
component, which shed over 1,000 jobs from 1997 to 2001. The state's metal mining sector received two recent blows. The Sunshine Mine closed because the Asarco Smelter in East Helena was

shutdown, leaving Sunshine without a place to send its silver concentrate. The Lucky Friday Mine curtailed operations due to low metal prices. Low silver prices have bedeviled Coeur d'Alene Mines Corporation to the point where it has warned shareholders it may have to seek bankruptcy protection. In contrast, nonmetal mining employment was virtually flat over the same period. Unfortunately, it is unlikely that Idaho's mining sector has experienced its last round of job cuts. This sector's payroll is forecast to shrink another 20.6% in 2002. The state's chemical sector has also fallen on hard times. Most notably, Astaris closed its Pocatello elemental phosphorus plant after more than a half a century of operation. Job cuts had been anticipated even before the October 11, 2001 closure announcement. Last March, the company reported its plan to shut down three of its four production furnaces and was planning to reduce its work force by half (around 200) by June 2002. The approximately 300 remaining employees lost their jobs when plant permanently closed its doors. The job losses go beyond the plant, however. Several hundred construction jobs were lost after a major project at the plant was abandoned. The mining for ore was also affected. Unfortunately, Astaris is not the only Gem State chemical manufacturer to fall on hard times. Kerr-McGee closed its Soda Springs vanadium and phosphate plant due to the low price of vanadium. Idaho chemical employment should drop from 2,324 in 2001 to 1,795 in 2005.

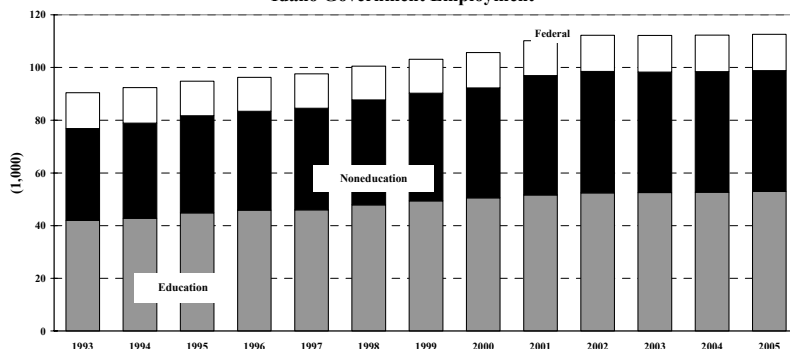
Food Processing: The state's largest nondurable manufacturing sector continued to adjust to a changing business landscape. One of the most significant changes is that a Magic Valley food-processing icon is shutting down permanently. This spring, J.R. Simplot Company announced the closing of its Heyburn, Idaho potato processing plant by April 2004. Company

officials said this old plant was too inefficient to operate profitably. The closure will result in the loss of over 600 processing jobs. Most of the jobs (about 500) will disappear by the fall of 2002. Not all this sector's news has been bad for this sector. A cheese plant in Blackfoot, Idaho that has been idle since February 2002, should be up and running again by summer's end. The Antigo Cheese Company purchased the 50,000 square foot plant from Suprema Specialties Northwest. The new owners plan to have about 30 employees at the plant by August 2002. Employment at the plant is expected to climb to 50 persons when it is at full production. Antigo's business plan calls for the Blackfoot cheese plant to initially produce American-style cheeses, then gradually make Italian cheeses.

Idaho Food Processing Employment



Idaho Government Employment



Federal, State, and Local Governments:

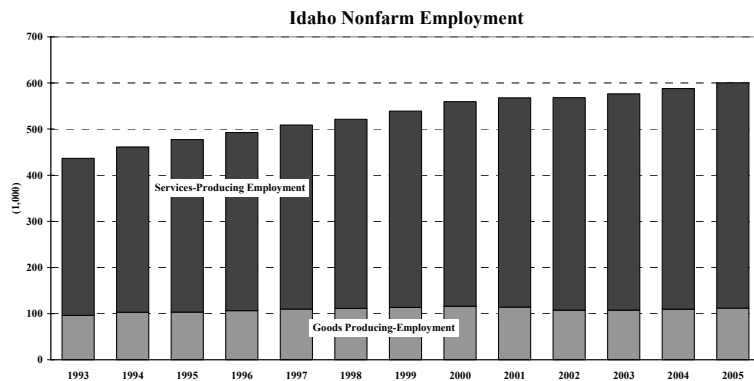
Several factors suggest limited employment opportunities for the state's public sectors. One factor is the expected slowing population growth, because population is a major determinant of government employment. To see this, one needs look no further than the previous decade. Idaho's population jumped 28.5% from 1990 to 2000. In comparison, the nation's population

grew just 13.2% over the same decade. Historically, huge swings in the Gem State's population are tied to migration. The 1990s were an excellent example of this phenomenon. Specifically, net migration accounted for two-thirds of the increase in total population. The strength of the state's economy versus its neighbors determines whether Idaho experiences a net in-migration or suffers a net out-migration. During the mid- to late-1980s, the Gem State's population actually declined because its weak economy resulted in an exodus of its citizens. However, this situation reversed itself as Idaho embarked on over a decade of prosperity. Once again Idaho became an attractive magnet of economic opportunity. At no time was this more obvious than during the 1990-91 recession. As the nation stalled because of the economic slowdown, Idaho cruised through relatively unscathed. At the 1990-91 recession's trough in 1991, U.S. nonfarm employment shrank 1.1%. In some states, such as California, the downturn was even more severe. In contrast, Idaho nonfarm employment actually increased a healthy 3.3% in 1991. The allure of Idaho's strong economy proved to be a powerful draw, and this caused the state's population to explode in the 1990s. Faced with growing pains that accompanied a fast growing state, all levels of government scrambled to ease the strain on the state's infrastructure. As a result, Idaho state and local government employment advanced over 3.5% annually during the first half of the 1990s. But even at this pace, Idaho governments were hard pressed to keep up with rapidly expanding needs. Over the next few years, Idaho's population growth is expected to slow, and this should take pressure off of local governments. But this not the only factor that should reel in Idaho state and local government employment growth. Local government budget caps will also limit employment growth. The tight state budget picture will also limit government payrolls. Like most states, Idaho is facing budget shortfalls. As a result of these factors, Idaho state and local government payrolls are expected to advance by no more than one percent annually through 2005. The outlook for federal job growth opportunities in the Gem State is even more limited. Federal employment decisions are ultimately determined in D.C. by federal budget writers. While federal spending may be boosted, it remains to be seen how it will benefit Idaho. The events of September 11, 2001 have caused a renewed vigor to spend on the military and homeland defense. Since the U.S. military has a relatively small presence in this state, Idaho is not likely to benefit from this spending. Idaho federal government employment is anticipated to grow slightly from 13,282 in 2001 to 13,735 in 2005.

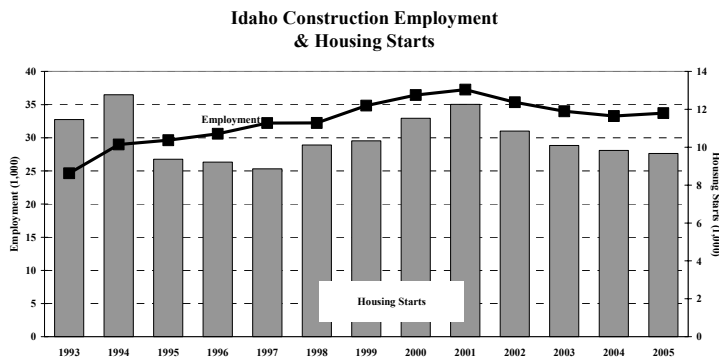
Services-Producing Industries: The

state's services-producing sector should keep the Idaho economy afloat during the early years of the forecast. A look at the forecast tables shows this sector's employment base expanding every year. On the other hand, goods-producing employment is expected to shrink this year and remain flat next year. One of the reasons for the services-producing sector's success is its diversity

because it covers a wide variety of industries. In 2001, there were almost 454,000 jobs in this sector. Several factors are also fueling growth. The biggest trend transforming it is the ongoing move away from a goods-producing economy to a services-producing one. In 1970, about one of every four jobs in Idaho was in the goods-producing sector (manufacturing, mining, and construction). Three decades later, the goods-producing sector accounted for just one of every five jobs. In the past, services employment was driven by local goods-producing industries. This has changed. As the economy evolves, services-based industries are becoming less dependent on these industries. An example of this trend is the growing number of call centers in Idaho. The call centers are involved in a wide range of



activities including sales, help lines, telemarketing, customer services, and market research. Call centers also include a wide variety of business sectors. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. These companies have flourished in Idaho because new technology frees companies from being located near their markets. Instead, they are drawn to Idaho because of its high quality labor force. This has created opportunities in the Gem State that a few years ago would have seemed impossible. For example, landlocked Boise is the home to an international shipping company's scheduling operations. Although the connection between goods- and services-producing sectors have blurred, they have not been severed. In fact, in some cases they have even been reinforced. Manufacturing firms sometimes use temporary employees to meet their peak demand needs. These employees are often employed by employment services and are counted as service employees. As a result, their numbers wax and wane with the manufacturers' business cycle. Another trend affecting service employment is the increasing presence of national "big-box" merchandisers in the Gem state. Recent openings by such industry giants as Fred Meyer, Home Depot, and Wal-Mart have provided employment opportunities in both urban and rural communities. Services-producing employment is projected to increase 2.4% in 2001, 1.5% in 2002, 1.8% in 2003, 1.9% in 2004, and 2.2% in 2005.



Construction: After nearly a decade and a half of growth, Idaho's construction employment is forecast to contract over most of the forecast period. This sector's remarkable growth streak began in 1988 and lasted through 2001. This sector's employment nearly tripled from just fewer than 14,000 to 37,537 during this period. This translated into an average annual growth rate of 7.5% annual growth rate. This pace made

it one of the strongest performers during this boom period. To put this in perspective, Idaho total nonfarm employment growth averaged 3.9% per year over the same period. The growth in construction employment resulted primarily from the booming housing market caused by the state's rising population. Housing starts surged from about 3,300 units in 1988 to nearly 12,800 units in 1994. Housing starts did settle down to about 9,400 units in 1995. Since then, total housing starts have hovered in the 9,000- to 11,000-unit range. One of the reasons the construction sector did not collapse was because of the strong nonresidential building. Projects such as the Boise Towne Square Mall and the rebuilding of downtown Boise's infrastructure help boost employment during the early years of the boom. It may have taken a back seat to housing in recent years, but its importance as a source of growth was never challenged. This became especially noticeable in 1994 when housing starts fell drastically. Strong nonresidential activity help keep workers on construction payrolls. After such a long run of increases, it is natural to begin thinking Idaho's construction sector is immune from the traditional cycles. Of course, this is not realistic; the industry remains cyclical. Falling Idaho housing starts will cause construction employment to contract through 2004. Employment is expected to grow again beginning in 2005. Idaho housing starts are forecast to be 12,257 units in 2001, 10,858 units in 2002, 10,097 in 2003, 9,832 units in 2004, and 9,672 in 2005. Idaho construction employment is expected to drop from 37,265 in 2001 to 33,709 in 2005.